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SUBJECT: PRESIDENT SARKOZY TAKES ON FRANCE'S WORK ETHIC

Summary

1. (SBU) President Nicolas Sarkozy has pledged to move swiftly to enact sweeping reforms to make good on his promise of an economic revolution. His first months in power have already been carefully planned. During, an "extraordinary session" of the French parliament in July the new government will introduce a series of draft bills to make overtime pay tax-free, guarantee a "minimum service" in public services during strikes, establish a "Marshall Plan" for young unemployed people in the French depressed areas, and give autonomy --including financial-- to Universities, in order to introduce more competition in French academia and boost research and innovation. Summits between government, union and employer representatives will be organized in September to overhaul the labor market and unemployment scheme as well as union representation and financing in the workplace. End of Summary.

Introducing minimum service during strikes

2. (SBU) The first test of the Sarkozy presidency may be a bill to be presented before the end of the year to force public-sector monopolies, notably in transport, to ensure minimum services during strikes. Minimum service already exists in the energy and broadcasting sectors. The proposal has angered unions who see it as a unilateral move and sparked warnings of mass protests. Sarkozy vowed earlier this month that the new minimum service in transport on strike days would provide for three hours of transit in the morning to get to work and three hours in the afternoon to get home. The new government's ability to overcome resistance to the bill will determine the future of the other reforms. Sarkozy has already engaged the unions in a well-orchestrated series of meetings that showcased Sarkozy's outreach to "social partners."

There's nothing like hard work

3. (SBU) Sarkozy plans to call an extraordinary session of parliament in July to adopt a series of measures to "restore the value of hard work" -- a central theme of his presidential campaign. In particular, he wants to exempt overtime worked above 35 hours from payroll taxes, a measure intended to reduce the marginal cost of labor and increase the purchasing power of employees. This measure is likely to be implemented relatively quickly through its inclusion in the 2008 budget law this summer.

4. (SBU) Most observers believe the psychological impact of the move is as important as the substance. President of the Agency for International investment, Philippe Favre, believes it will reflect favorably on the "international economic image" of France. The French economic and business community has broadly hailed the move as an important step in restoring French competitiveness and creating jobs. Dominique Moisi of the French Institute for International Relations (IFRI) commented that the election of Sarkozy had proved "that the French were not in the mood for love -- but in the mood for work." Nevertheless, some economists have raised concern about the potential for fraud, and the cost to the state budget (septel).

Labor, unemployment and pension reform

¶5. (SBU) Labor reform is at the heart of Sarkozy's economic reform package. A single work contract designed to replace France's bifurcated labor market of under-protected fixed-term and over-protected permanent labor contracts, is the central element of the reform. Sarkozy wants to convince his social partners, prior to a proposed September summit on employment, of the need to introduce a new labor contract. Based on a report he commissioned as Finance Minister in 2004, under a single work contract employers would pay a "solidarity" tax into the State unemployment benefit scheme once a trial work period had been completed. The contribution would be offset by simplified dismissal procedures and a limitation on the right of employees to appeal layoffs to state mediators. The proposals respond to strong consensus among economists (and the IMF's Article IV reports on France) that France's overprotected labor market is largely to blame for its chronically high unemployment rates (currently at 8.4 percent).

¶6. (SBU) Sarkozy's proposals on the 35 hour work week get headlines. But he also proposes simplification of simplification of the administration of France's unemployment system, and a reform of the benefits system by forcing the unemployed to accept work after having received two job offers. In addition, he has called for scrapping the costly special pension schemes for certain employees in the public sector to enjoy earlier retirement benefits, though that battle may be put off until 2008.

A Marshall Plan for Youth in the "Burbs"

¶7. (SBU) In France's suburbs, the scene of rioting in late 2005, Sarkozy has promised a "Marshall Plan" to provide training for unskilled youth. As initially proposed by then-Employment and Social Cohesion Minister Jean-Louis Borloo, appointed new minister of Economy, Finance and Employment on May 18, the plan would call

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for a three-year program to support some 250,000 "professional contracts" for unskilled young people in depressed areas. These one-year contracts would involve working for the minimum wage while being trained and would lead to a permanent job, free of payroll taxes for two years. Furthermore, a new National Training Agency would take on the task of preparing some 100,000 young people for the labor market every year.

No more golden parachutes?

¶8. (SBU) Sarkozy has not ignored the upper end of the wage scale with his proposed reforms. The French business community has responded positively to Sarkozy's election, with Laurence Parisot, the President of the French Employer's Federation MEDEF, pledging to "contribute enthusiastically to the writing of a new chapter for France." But Sarkozy's proposal to legislate against so-called "golden parachutes" may be less welcome.

¶9. (SBU) Widespread outrage in France in the past year over news of huge payouts to CEOs of failing companies put the issue front and center in the campaign. Recent news of former Airbus CEO Noel Forgeard's 8.5 million euro payout -- just as the group was announcing 10,000 job cuts across Europe -- added fuel to the fire. Many observers doubt that a law banning golden parachutes altogether could be made to work without seriously eroding the contract structure of a free market system. But if, as some believe, Sarkozy's real purpose is to shame the capitalist class into better behavior, it may be working. The CEO of insurance giant AXA announced on May 15 that he would forgo his stock options package. And MEDEF President Laurence Parisot was visibly angry in a televised response to reports of further golden parachutes in Airbus mother company EADS.

The September Summits

¶10. (U) To discuss these and other issues Sarkozy has proposed that four "summits" be held with France's main unions and employers in September. The summits would focus on: unification of the labor market and tighter rules on unemployment entitlements, equal wages

for men and women; work conditions and stress; and, new labor representation voting methods and union financing in the workplace. (A separate roundtable on the environment will also be scheduled in September focusing on GMOs, the carbon tax and a new green tax.)

Comment

¶11. (SBU) The decisiveness of Sarkozy's victory over Segolene Royal, especially if confirmed by a sizeable majority in the June 10 and 17 Parliamentary elections, would buttress the new President's strong mandate for implementing his vision of France's economic future. Still, the breadth of reforms on which he is embarking -- and the constituencies he risks offending -- is considerable. Those who have watched Sarkozy operate say he has the political acumen to know when to trim his sails to stay on course. Nevertheless, for those who support Sarkozy, the fear is that political missteps on any of these dossiers could trigger the kind of street protests that have so often sunk French reform efforts in the past. End of
Comment

Stapleton